

Rocky start to 2023 as Welsh business activity contracts faster than UK average

Business activity in Wales contracted quicker than the UK average last month as output and new orders fell. However, business confidence reached a six-month high.

The latest PMI data from NatWest Bank saw business activity fall at the start of 2023 as inflation continued to impact demand and customer spending. The Wales Business Activity Index – which measures the month-on-month change in the combined output of the manufacturing and service sectors – registered 47.7 in January, down from 52.0 in December.

Anything below 50 denotes contraction. This contraction was the fastest since last September and quicker than the UK average.

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New orders received by Welsh private sector companies fell again last month – the fastest decrease since October 2022 and sharper than the UK average. Firms said this was due to weak demand conditions in domestic and external markets as well as customer reducing spending due to severe inflationary pressures.

Business confidence was the highest since July 2022 as optimistic firms cited investment in new product launches and increased marketing, as well as aspirations to acquire new clients.

However, Welsh companies were hesitant in their hiring decisions with some cutting employment for the first time

since April 2021, albeit marginally. The fall in workforce numbers was attributed to lower business requirements following a drop in new orders.

The level of outstanding business at Welsh private sector firms fell again at the start of 2023 – the sharpest fall since July 2020. Easing demand pressures from new orders reportedly allowed firms to work through their backlogs.

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While operating expenses increased at a marked pace in January, the rate of cost inflation lost momentum. Higher cost burdens were attributed to higher wage bills, alongside greater material, energy and utility costs.

NatWest ecosystem manager for Wales Gemma Casey said: “Welsh firms signalled a return to contraction territory for output and new business in January, as 2023 got off to a rocky start. Pressure on customer spending from high inflation stymied new sales and indicated a turnaround from that seen at the end of last year. Although cost pressures softened again in the month, firms sought to recoup additional expenses through a sharper rise in selling prices. In fact, output charges rose at the steepest rate across the UK.

“Despite business confidence picking up to a six-month high,

Welsh companies were hesitant in their hiring decisions, contributing to a renewed fall in employment. The drop was the first for 21 months, with reduced new orders reportedly leading to ample capacity to process incoming work.”

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